December 1983

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Marketing on Biggest Spending Spree Ever
Why You Need New Profit Streams
How Holiday Profits from C-Stores, Tires

NPN

National Petroleum News

A PUBLICATION FOR MARKETING MANAGEMENT • OPERATIONS • FUEL OIL • TBA/AFTERMARKET

A YEAR OF DECISIONS

NATIONAL PETROLEUM NEWS

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The outlook for gasoline demand and prices next year is essentially flat, while distillates should rise in both demand and price. The product glut will continue, and marketing ranks will shrink even further. But those who want to compete must spend to modernize their operations.

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Cover photograph by Thomas Olson

The three-year total for motor fuel marketing capital expenditures is forecast to reach a colossal $7.5-billion for real estate, construction and equipment, as majors escalate the battle for market share.

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Holiday Oil, located in the tough Salt Lake City market, has increased overall sales 20% over 1982 by using the dual threat of tires and convenience stores.

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• TRENDS

Fewer Profitable Outlets, More 'Breakevens' in '84

With operating costs continuing to increase in the face of slim profit margins and virtually flat demand, 1984 could be a crucial year for many marketers, various sources believe.

This includes some large chain independents as well as smaller branded jobbers, they add.

"I think you are very close to a break-even situation on a typical 150,000-gal., multi-pump C-store that's doing $30,000 a month on 'inside' store sales," says one independent. "It's taking awfully close to $20,000 a month to operate such a unit today. Two or three years ago, such a facility was great. Today, it is no barn-burner."

This source points out that two or three years of inflation at 7% or so a year would eat up what profit such a facility now turns out, if margins remain at around 6¢ gal. in a zero-growth market.

A few oil companies were able to report slight improvements in their refining and marketing profits in the third quarter. [See related story on page 28.] Others didn't, however, and the bottom appeared to be dropping out of some wholesale markets in early November. Most companies were pessimistic about the fourth-quarter outlook.

The third-quarter improvement apparently caused one refiner—Asamera Oil—to change its mind about selling out [NPN—Aug. '83, p27]. Upon looking at better margins in Denver (after street prices improved as much as 12¢ gal. during a six-week period the past summer), the company decided it isn't in an "active selling mode" insofar as its refining and marketing facilities are concerned.

Attrition continues, nevertheless, in the industry as a whole, as well as in its employee ranks.

Total employment in wholesale oil marketing slipped 1% in 1982, from 227,586 in 1981 down to 225,394. Employment in retail marketing fell 1.1% from 564,788 in 1981 to 558,462 in 1982. [See page 49 for more details.]

The National Oil Jobbers Council estimated earlier this year that the "universe of independent petroleum marketing companies" decreased by more than one-third between 1980 and the end of 1982, down to 15,160 companies.

Private-brand independents have seen their ranks thin by as much as 25% to 30% within the past four or five years, estimates Michael Kirschner, president of the Society of Independent Gasoline Marketers of America.

Total operable refinery capacity was recently put at 16.9-million b/d by the American Petroleum Institute, down 1.7-million b/d from 1981. API says the number of refineries dipped from 315 in 1981 down to 233 last year.

Extremely thin retail margins and continued flat demand may continue for several years, some marketers predict.

"In gasoline," says a chain independent, "you've got to assume that we've got a demand-driven market and zero growth in gasoline for the next five years, at least. And, you have to assume, also, that the majors are going to continue controlling retail prices and pricing with the independents unless somebody stops them. They are determined to maintain their market share, and they will continue to price with the independents to accomplish this."

One very large chain retailer points out that for years, "we could project a 10% increase in volume." Not now. "We've been very fortunate just to stay even because of increased competition from the majors these past 18 months," he says.

But while some such marketers believe today's marketplace conditions could still lead to legislation aimed at divorcement or divestiture, national jobber groups now appear to be favoring other "solutions." [See page 12.]

Although a few companies did turn in better third-quarter results, fourth-quarter marketing earnings are expected to be down again. In fact, some refiners have noted this pattern in the nearly three years since decontrol: first-quarter earnings down, some improvement in the second and third quarters, and then, down again by year's end.

Heating oil marketers also were singing the blues through September and October. After some earlier talk that diesel and No. 2 fuel oil might be scarce by October, supply was plentiful and prices were falling. In New Jersey, a home heating oil customer paid $1.05 gal. in October. Wholesale prices at the time ranged upward from 83.5¢.

Gasoline prices at wholesale racks were also taking a beating in early November. They had dropped as low as 73.25¢ for leaded regular in Los Angeles, where some street prices were 97.9¢. Pump postings below $1 also were showing up in such markets as Dallas.

This coming winter, some fear, could be worse than the past summer for profits. *—Marvin Reid*

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

SEPTEMBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Leaded Premium
U.S. City Avg.	$1.257	$1.189	$1.274	$1.405
Regions:				
Northeast	1.267	1.202	1.271	NA
North Central	1.272	1.220	1.297	NA
South	1.234	1.162	1.250	NA
West	1.257	1.173	1.281	1.405

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	11/4/83	11/5/82
Gasoline (total)	224,781	231,753
Gasoline (unleaded*)	93,639	[illegible]317
Kerosine **	37,2[illegible]	[illegible]35
Distillates	161,5[illegible]	[illegible]48
Residual	47,5[illegible]	61,047

**Included in gasoline total.*

***Jet kero only; totals no longer kept by API and DOE.*

Source: American Petroleum Institute.

NPN

NATIONAL PETROLEUM NEWS DECEMBER 1983

Projected Marketing Expenditures Pushing Record Totals Amid Market Share Battles

Record-breaking numbers of dollars—billions of them—are being poured into new marketing facilities and equipment by the nation's oil companies as they continue to retrench and regroup in the increasingly bitter battle for customers and marketshare.

McGraw-Hill, Inc's annual capital investment forecast says the companies will spend at least $2.1-billion in 1983, $2.6-billion in 1984, and $2.8-billion in 1985.

That's a three-year total of $7.5-billion, the most the industry has ever targeted for marketing expenditures in such a short period of time.

Add that to the $1.9-billion that was invested in 1982 and the $2.1-billion that was spent in 1981, and the five-year total approaches the $12-billion mark.

Most of the money is going into gasoline marketing, the industry's Cinderella product.

It's being used for real estate purchases and for the modernization of gasoline stations or the construction of entirely new pumper-type locations to replace handfuls of smaller 30,000- to 50,000-gal. type outlets.

"Real estate prices, especially for prime locations, are utterly fantastic," said one industry spokesman. "But what we look at is the fact that one good location, moving 100,000 to 200,000 gal. a month, is well worth the cost (relative to) three or four others that are smaller and less efficient. The overhead is lower and the consumer appeal is much brighter because the locations are built that way."

Earlier this year, *NPN* noted that the major oil companies particularly were changing their logo styles and color combinations, emphasizing dealer training and uniforms, and rehabilitating many old locations to make them more appealing for customers. Some majors are known to have five- to six-year, multi-million-dollar programs well underway in the fight for gallonage, in order to retain a good piece of the shrinking volume pie [NPN—April '83, p36].

Capital improvement and other marketing expenditures will reach about $2.8-billion in 1985.

Another big cost factor for suppliers, jobbers, and retailers is the escalating transition from orthodox operations to electronics and the anticipation that automated teller machines and electronic funds transfers will be coming on in breathtaking fashion over the next two or three years. Most majors already are experimenting with some form of electronic equipment, and Mobil only recently announced that it will be the first major to introduce an electronic funds transfer network nationwide in 1984. [See related story on page 29.]

Another company says that it soon expects to have an electronic system in place so that the headquarters, at the push of a button, will be able to read marketing data from any outlet, and be able to have nationwide summaries by mid-morning each day. This too is scheduled to be in place next year.

McGraw-Hill's economic forecast goes out every fall to hundreds of businesses in all sorts of industries. Where petroleum is concerned, a spokesman for the publishing company said the figures reflected

Industry Capital Spending: A Five-Year Look

	1981	% Chng. 81 v 80	1982	% Chng. 82 v 81	1983	% Chng. 83 v 82	1984	% Chng. 84 v 83	1985	% Chng. 85 v 84
					(Millions of dollars)					
Marketing	$2,121	16.9%	$1,940	(8.5%)	$2,103	8.4%	$2,575	22.4%	$2,848	10.6%
Refining	4,943	48.3	5,490	11.1	3,244	(40.9)	3,750	15.6	4,566	21.7
Transportation (a)	2,842	42.0	2,315	(18.5)	2,411	4.1	1,070	(55.6)	966	(9.8)
Production	31,433	45.8	31,035	(1.0)	25,917	(16.5)	28,735	2.9	30,044	5.2
Petrochemicals	1,243	18.0	1,200	(17.3)	657	(39.5)	542	(14.9)	575	6.1
Other (b)	3,663	25.2	4,273	10.9	3,275	(23.4)	3,030	(7.5)	2,920	(3.8)
TOTAL PETROLEUM	$46,195	2.1%	$46,113	—	$37,287	(18.5)	$39,226	4.4	$42,579	8.9

(a) Includes oil pipelines but not gas pipelines (b) Includes coal mining

about 76% of the total capital spending by oil in any one year.

"Obviously, the data come largely from the bigger companies," he said. "But then, they're the ones that are spending the most money, aren't they?"

If the McGraw-Hill estimate accounts for only three-fourths of oil's capital spending, then it's possible to speculate that the remaining one-fourth could amount to as much as $2.5-billion in the 1983-85 period. If that is a hypothesis, then marketing's investments during that time span alone would be more in the order of $10-billion, not just the predicted $7.5-billion.

The entire petroleum industry is expected to invest $37.6-billion in 1983, $39.2-billion in 1984, and $42.6-billion in 1985. The industry's peak year of expenditures was 1981, when the investments exceeded $46.2-billion. They declined ever so slightly in 1982 in the face of sloppy markets and prices for gasoline and fuel oil—its principal products. Total investments plummeted to $37.6-billion in 1983—a one year drop of 18.5%. Production took the worst beating—a decline of almost $6-billion, as the world floated on a sea of excess oil. The projected level of $42.6-billion in 1985, while signifying a healthy comeback, is still well below 1981's total of $46.2-billion.

—J. Richard Shaner

Third Qtr. Earnings Improve For Top Global Companies

The international oil companies fared well in the third quarter of '83, more as a result of improved earnings overseas than what they did on the home front.

This was particularly true for Exxon, Mobil, Standard of California and Texaco—the four partners in Arabian American Oil Co.—who had been taking a bit of a beating earlier in the year because of the Saudi's unwillingness to lower their benchmark price for crude oil.

Seven oil companies already have topped the billion-dollar-plus status for the first nine months. Texaco is sure to become the eighth company to reach that status sometime this fourth quarter.

Percentagewise, Gulf had a strong third-quarter—76% over the same period of last year.

U.S. Steel Corp. said subsidiary Marathon Oil helped it make a profit in the third quarter versus a loss in the same period of last year. The steel giant said Marathon earned $231-million, after foreign taxes, compared with $185-million in the comparable period of 1982.

Du Pont said its Conoco, Inc. division earnings were mixed. Operating profit for refining, marketing and transportation rose to $74-million from $56-million in third quarter 1982, and profit from exploration and production slipped to $96-million from $111-million at the same time.

Third-Quarter and Nine-Month Earnings

(Add $000)

Company	3rd Qtr. 1983	3rd Qtr. 1982	% Change	9 Mos. 1983	9 Mos. 1982	% Change
Exxon	$1,225.0	$1,017.0	20.5%	$3,360.0	$2,705.0	24.2%
Mobil	404.0	284.0	42.3	1,056.0	815.0	29.6
Texaco	331.0	303.0	9.2	977.0	975.0	—
Stand. (Ind.)	584.0	559.0	4.5	1,409.0	1,411.0	—
Stand. (Calif.)	509.0	459.0	10.9	1,187.0	952.0	24.7
Atl. Richfield	405.1	446.9	(9.4)	1,128.8	1,242.0	(9.1)
Shell	449.0	442.0	1.5	1,084	1,166.0	(7.0)
Gulf	276.0	159.0	73.6	681.0	674.0	1.0
Tenneco	159.0	198.0	(19.7)	475.0	531.0	(10.5)
Stand. (Ohio)	435.0	487.0	(10.7)	1,190.0	1,420.0	(16.2)
Phillips	176.0	153.0	15.0	474.0	491.0	(3.5)
Sun	167.0	152.0	9.9	392.0	386.0	1.6
Getty	183.7	182.7	—	255.5	518.9	(50.8)
Union (Calif.)	180.2	212.8	(15.3)	447.9	578.9	(22.6)
Amer. Hess	75.1	80.1	(6.2)	148.3	125.0	18.6
Ashland (a)	51.1	75.8	(32.3)	102.8	180.9	(43.2)
Kerr-McGee	39.7	56.8	(30.1)	101.3	136.2	(25.6)
Dia. Shamrock	39.7	42.3	(6.1)	73.9	138.9	(46.8)
Murphy	39.8	43.9	(9.3)	105.0	116.0	(9.2)
Amer. Petrofina	23.0	12.7	81.1	31.9	39.6	(19.4)
Crown Central	3.8	8.4	(57.1)	(3.0)	2.4	—

(a) Fourth quarter and full year; fiscal ends 9/30.

Gasohol's 'Premium' Tag Not Enough to Move It, Warns NOJC's Scanlon

Unless the alcohol fuels industry abandons its "premium price/premium product mindset," jobbers and other marketers will be never become the loyal customers the alcohol industry wants. If and when tax subsidies for alcohol fuels evaporate, they will be followed quickly by independent marketers.

That's the message delivered to a national alcohol fuels conference in Washington by National Oil Jobbers Council (NOJC) vice president Michael Scanlon. In what he called a "frank" presentation, Scanlon complained that alcohol fuel blends are priced "beyond the reach" of 85% of American motorists. By blending alcohol primarily with premium grade gasoline, he says, the alcohol fuels industry is making it impossible for many marketers to sell its product, even if they want to. "Half of NOJC's members," Scanlon said, "don't sell premium at all."

"It's clear that the price of alcohol fuels is deliberately being set at the premium level," Scanlon said after his presentation in October. "We can see that the price doesn't vary, despite fluctuations in the price of corn." [See related story page 32.]

Scanlon also pointed out that in most cases, those marketers who are selling alcohol fuel blends can remain competitive only because of state and federal tax breaks. States looking for the cash needed to match federal highway funds already are looking over alcohol tax breaks, Scanlon warned, and many of them may evaporate.

Along with complaints over high prices, the NOJC exec urged alcohol producers and marketers to develop a continuing consumer information and education program to counter the adverse publicity that crops up every time there are news reports of contaminated fuel or similar consumer problems. "If the industry wants the loyalty of marketers, it must support them," he told the two-day gathering.

NOJC also urged the alcohol industry to take extra precautions in invoice labeling, noting that marketers can guard against "double blending" only if they know what already is in the product they receive. The labeling problem could become a serious one if the Environmental Protection Agency decides to strictly enforce its gasoline content regulations, which prohibit blending alcohol with gasoline that contains oxygenating additives, Scanlon told the conference.

Much of the Washington conference was devoted to tax issues. Senate Finance Committee Chairman Robert Dole (R-

The amount of the alleged overcharges had not been determined by late October, but was not expected to be a large sum. Even tripled, it's unlikely the award will top $100,000, some sources believed, assuming the jury rules in favor of Bray. Compared with the original claim of $120-million, that's popcorn money, they said.

The fact that the case was turned back to a jury at all, however, was a technical victory for Bray. Chevron's counsel had anticipated complete denial of any damages and dismissal of the Bray suit. Still pending is a Chevron cross suit for $1.5-million the company contends it was owed when Bray went out of business.

Both sides have said that they would appeal Judge Holden's decision. Chevron already has filed an appeal of a limited nature.

Bray's original suit was filed in 1977. It contended that Chevron had forced him to accept a price increase that violated the oil price freeze of the early 1970s, had engaged in fraud and deception and, as a result, he suffered hardships severe enough to lose his business.

A jury heard testimony from July 1982 to March 1983. Then, after 10 days of deliberation, it responded to a series of questions posed by Judge Holden—most of them in favor of Bray.

The charges of fraud were denied. Both sides claimed victory, but it was agreed that the key determination would be a ruling by Judge Holden as to whether Bray was entitled to damages—compensatory or punitive.

Both sides submitted a variety of briefs during the summer months, and Judge Holden's decision came down in mid-October: Yes, Bray is entitled to damages but only for the year 1975-76 and then, no more than three times the alleged overcharges, whatever they turn out to be.

That eliminated considering the winters of 1973-74 and 1974-75 as well as the multi-million dollar claims. NPN

Pennzoil Constructing $1.7-million Lube Plant Near Johnstown, Pa.

Pennzoil Products Co., Houston, Texas, and two partners are constructing a $1.7-million lube oil blending and packaging plant at Mundy's Corner, near Johnstown, Pa.

It's expected to be operational in early 1984 and will employ about 25 people.

Co-owners of the plant are James W. Lambing and West Central Service & Transfer Corp. Pennzoil will handle the processing and packaging aspects, while Lambing and the transfer corporation will provide transportation and servicing requirements.

The output is scheduled to be distributed in East Coast markets. NPN

Decline in U.S. Oil Reserves Expected to Continue for '83

Although it's too early for much more than educated guesses, there's little reason to believe that 1983 will see any reversal in the continuing decline of U.S. crude oil reserves.

Official government figures released in early October showed that crude reserves dropped to 27.9-billion bbl. at the end of 1982, the lowest level since 1952. [See table.] This was an erosion of 5.3% from 1981's total of 29.4-billion bbl. [NPN—Nov. '83, p11].

Statistics compiled by the Independent Petroleum Assn. of America indicate that during the first half of 1983, the number of rotary rigs in action in the U.S. was down about one-third compared to 1982. The number of well completions and the total footage drilled in the first half of 1983 also were down 8% to 10%.

These cutbacks in exploration in late 1982 and early 1983 reflected the constriction in major companies' earnings in recent years, as well as the overtones of the economic slump that had hampered business and industry generally until the recovery processes began to change things in mid-1983.

Robert R. McCall, executive vice president of Texaco U.S.A., put his finger on the problem in a recent address to the Society of Petroleum Engineers in San Francisco. He said the windfall profit tax and the continued regulation of natural gas are "denying the petroleum industry the necessary cash flow to replace the domestic oil and gas reserves that are now being produced." He went on:

"Excessive and unfair taxes on crude oil, combined with unreasonable and unworkable price controls on gas, severely cramp the industry's ability to carry out expensive exploration and development programs.

"There are certainly at least as many good investment opportunities today as two years ago, but we are unable to take full advantage of them—to the detriment of our industry and the needs of the country."

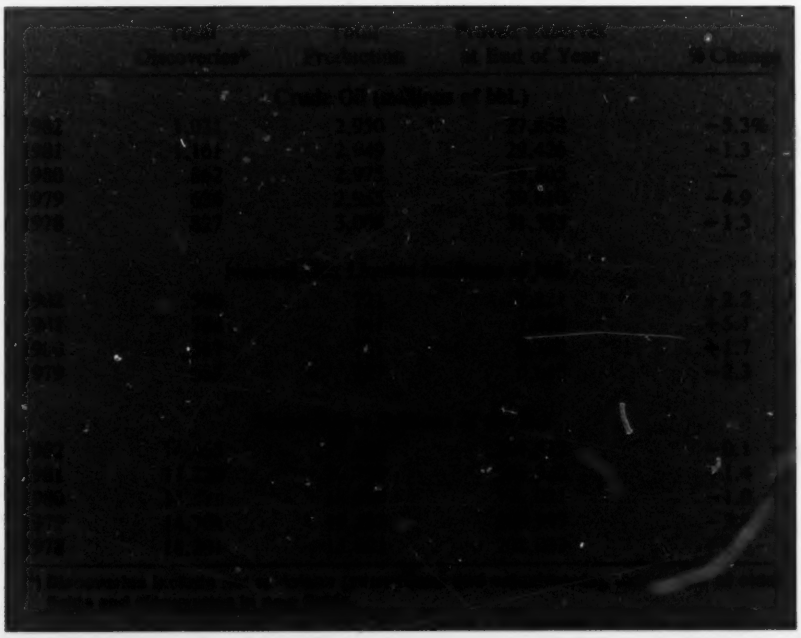
U.S. crude oil reserves have been eroding almost steadily since 1970—the peak year when Prudhoe Bay's reserves finally were added to the national total to raise it to 39-billion bbl.

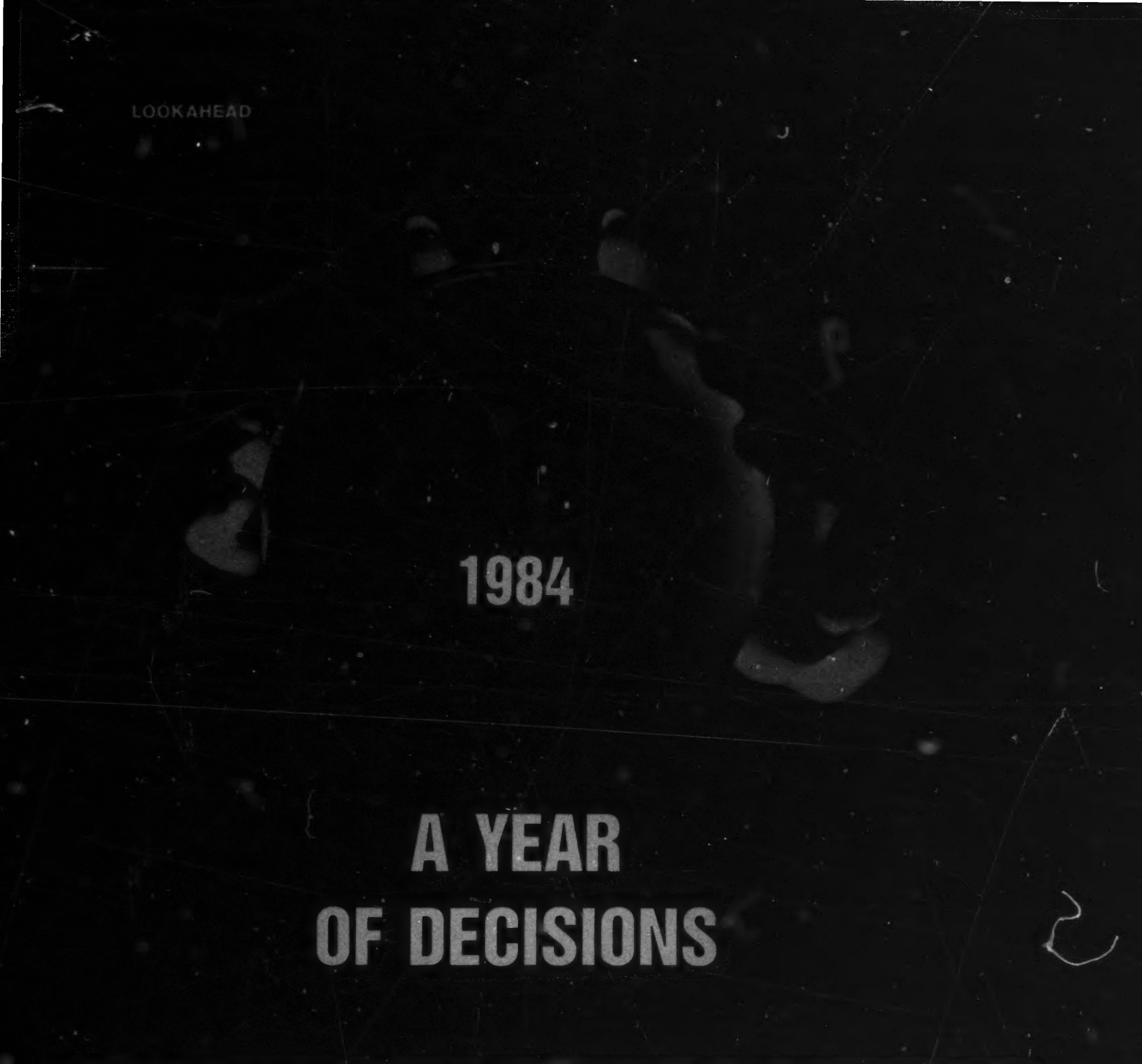
The rate of decline slowed somewhat in 1980 and 1981 but resumed in 1982, according to the government's Energy Information Administration. (It now compiles the totals that used to be made available by special committees of American Petroleum Institute and American Gas Assn.)

Natural gas liquids, which are extracted from natural gas production in sort of a laundering process—showed a modest increase in 1982 for the third consecutive year. They now stand at 7.2-billion bbl., the highest level since 1971.

The natural gas liquids can be converted into useful products, just like crude oil. So, they do enhance the total availability of liquid petroleum.

Natural gas reserves declined slightly in 1982 to a total of 201.5-trillion cubic feet.





1984

A YEAR OF DECISIONS

Don't be surprised if many oil marketers resort to ouiji boards, tarot cards and crystal balls this winter to figure out which way to go—and how to get there—in the coming year.

The old track records aren't worth a dang anymore as a basis for projections. Given the uncertainty of the times, this makes forecasting hairier than usual, especially in view of all the false prophesies of the past two years.

It isn't hard to remember, for one example, that this time last year the weather experts were predicting the worst winter of the century. Instead, it turned out to be the warmest in three decades.

Be that as it may, the economic and business forecasters are moderately optimistic about 1984, it being an election year and all that. They believe the current upswing will continue past November and well into 1985. A National Conference Board panel, for instance, foresees a growth in gross national product of 5% in 1984 and 4% in 1985.

Not much of that sunshine is expected to fall on the oil marketing industry, however. Some projections are so dour that even a Pollyanna would have a tough time putting on a happy face to look ahead.

But it's not *all* bad, either. It's just that calendar year 1984 does not currently look any better for oil marketers than the year just coming to an end.

In short, the long roller coaster ride driven by the traumatic upheavals and changes of the post-decontrol days is not over yet.

Said one industry economist, if another warm winter takes place and the economy slows down instead of heating up, 1984 will see many jobbers writing new chap-

By J. Richard Shaner
Executive Editor

ters about their business careers. "Unfortunately," he said waggishly, "for many of them, it will be Chapter 11."

NPN Forecasts

Here, for the record, are some of *NPN's* annual Look Ahead sightings, gleaned from a variety of forecasts and individual commentaries:

- Supply: Still on the high side, although it's being managed better. Worrisome factors are the continuing disturbances in the Middle East, which could flare out of control at any time and jeopardize the flow of crude oil from that part of the world.
- Demand: Even though gasoline sales were up a bit in the second half of 1983, domestic demand for all products will probably wind up a bit under the 1982 average of 15.3-million b/d. Demand is expected to rise in 1984, however, as business and industrial activity increases, and could average 15.4-million b/d during the 12-month period. But neither gasoline nor space-heating distillates will fare any better than they did in 1983.
- Prices: No great changes are in the wind. Gasoline will rise and fall a few cents a gallon within the traditional seasonal patterns. The government expects the composite price to average $1.237 in 1984, versus $1.231 in 1983. Distillate fuel oil for space heating also will be in the same tight range—perhaps an average of 2¢ gal. better for the year as a whole. (But that's based on next winter, not the one currently underway.)
- Margins: No relief in sight. So long as product prices continue in the range as forecasted above, and there's no hope for improvement. The margin for all three gasoline grades will likely be 6¢ to 10¢ gal.
- Capital Expenditures: The only real bright spot on the horizon. McGraw-Hill's economics department, in its annual fall survey, says oil companies will spend more than $7.5-billion on new marketing facilities and equipment in 1983, 1984 and 1985 in the intensified struggle for marketshare and customers. This is a record-breaking total for oil marketing, the most in its history over so short a period. Total petroleum expenditures are recovering too. [See related story on page 27 and the graph on page 43.]
- Population Trends: Further significant shrinkage in the number of service stations and in the nose count of jobbers relative to totals of 1982 and other years. There was erosion in both categories in 1983, and still more is expected in '84.
- The Washington Scene: It's an election year, so campaigning will probably get more attention in Congress than controversial issues. This will include inaction on legislative amendments to the Petroleum Marketing Practices Act, divorcement/divestiture, credit cards, etc. Windfall taxes, especially in view of the recent Internal Revenue Service ruling against Atlantic Richfield and Alaskan oil production, will stir much controversy. [See page 12.]
- State Legislatures: With the divestiture/divorcement battles shifting from federal to state levels, more local actions are anticipated. Pennsylvania will be a hot spot again, having been blocked by only one committee vote two years in a row [NPN—Nov. '83, p11]. A Supreme Court resolution of the Georgia case being pushed hard by the retailers there and nationally, could take away the jobbers' edge in direct marketing if they win [NPN—Oct. '83, p16].

Prices & Margins

Barring an unforeseen development, such as a major disruption of crude oil supplies, retail prices and margins are likely to be as depressed in 1984 as they were in 1983.

"The majors are determined to price with the independents to maintain their market share," says one large chain independent. "So long as you have this situation in a demand-driven market and zero growth, margins will be thin."

Rack-to-retail composite margins on all three grades of gasoline dipped to 6¢ gal. or lower in many metropolitan markets in 1983. Some independents see such low returns continuing and spreading to smaller markets where the majors have investment-type units.

The intensely competitive situation probably will lead to more cries from independents and jobbers for some type of divestiture legislation or restrictions on suppliers.

"The potential for some federal legislation is there because the majors are subsidizing their retail operations with crude oil profits," says an independent who has locked horns with them in many markets.

No major, of course, admits that its retail operations are being subsidized. Virtually all insist that marketing, like all other segments, must function as a profit (or loss) center and justify its existence.

Government data indicate the composite price of gasoline averaged $1.213 during the first seven months of 1983. Buoyed by some hot weather support, for a brief period at least, the average for the year was expected to be around $1.231. If this is the way it turns out, then the composite average would be off 3.9% versus 1982, and would be down 11.3% from the peak of $1.388 achieved in the spring of 1981.

A factor that will continue to have a bearing on prices and profits is the changing mix in the three grades. There's more money to be made, of course, in the unleaded grades than there is in leaded regular, which is the benchmark grade.

Unleaded gasolines constituted 55.3% of the gasoline sold in September 1983—the most recent period available when this article was prepared. The growth pattern is such that the average for the year could well be 56%.

That would be 4% above 1982. With a like trajectory over the next 12 months, this could mean that by the end of 1984, six out of every 10 gallons of gasoline sold would be of the unleaded variety.

In the breakout of the two unleadeds, the last data indicated unleaded regular accounted for 42.5% of the unleaded total, and unleaded premium, 11.7% of the unleaded total.

The year 1984 therefore, could well be the year that unleaded regular sales exceed those of leaded regular for the first time. And, unleaded premiums—if the ratio increases materially—could help improve margin positions.

There is a movement toward octane enhancement of the unleaded premiums in the eastern markets as the push for market share intensifies. Some companies currently are selling 93.5 octane, while others have been assayed at much higher levels in routine Department of Energy sampling procedures.

For gasoline jobbers and retailers, the marketplaces in 1984 will be replays of the strife and power plays of 1982 and 1983.

The gasoline "pie" has been shrinking in size for the past several years, and if 1983 winds up as a minor aberrational improvement, it is not expected to continue on the plus side in 1984.

Supply & Demand

Because of the uncertainties of the economy, the politics of an election year, and the sore spots in the Middle East and elsewhere, traditional economists were hesitant in the late fall to put themselves on record for 1984.

Generally, however, there was little overall disagreement with the projections made by the government. [See table, page 40.] Give or take a few thousand b/d on a seasonal basis, most found the federal data acceptable.

For gasoline, this calls for an average of 6.6-million b/d in 1983 and roughly the same in 1984. This totals up to 101-billion gal. of gasoline. Since the trend has been on the downside in recent years, it might be best to look at that total with a grain of salt, according to some marketing observers.

Distillate and residual fuel oils are expected to do better in 1984 after their poor performances in 1983 (due mostly to the unexpectedly warm weather of the 1982-83 winter). But the principal beneficiaries of the increase in distillates are not going to be the home and apartment complex markets. They'll be the transportation and commercial markets using more diesel fuel for vehicles and more power for the accelerating economy.

What's Ahead for Prices and Supplies—'83-'84 Forecast

Retail Prices (per gal.)	Annual Averages Actual 1982	Annual Averages Projections 1983	Annual Averages Projections 1984	Quarterly Averages 1983 Actual 1Q	1983 Actual 2Q	1983 3Q	1983 4Q	1984 Projections 1Q	1984 Projections 2Q	1984 Projections 3Q	1984 Projections 4Q
Motor Gasoline*	$1.281	$1.231	$1.237	$1.173	$1.234	$1.268	$1.247	$1.256	$1.255	$1.235	$1.202
Distillate Fuel Oil	1.186	1.068	1.084	1.103	1.040	1.058	1.072	1.069	1.076	1.093	1.098
Products Supplied (million b/d)											
Motor Gasoline	6.54	6.59	6.59	6.29	6.68	6.78	6.61	6.34	6.66	6.77	6.59
Distillate Fuel Oil	2.67	2.62	2.89	2.83	2.52	2.10	3.01	3.39	2.59	2.33	3.24
Residual Fuel Oil	1.72	1.49	1.69	1.57	1.33	1.38	1.67	1.84	1.56	1.54	1.80
Others	4.37	4.48	4.78	4.32	4.23	4.63	4.74	4.69	4.54	4.87	5.02
Total	15.30	15.18	15.95	15.02	14.77	14.89	16.03	16.26	15.36	15.52	16.65

*Average Prices for All Grades

Department of Energy, Short-Term Energy Outlook, August 1983. DOE says these projections assume imported crude oil costs of $29 bbl., and slow but steady GNP growth for last half of 1983 and all of 1984.

A recent report by the American Petroleum Institute, for example, shows that the transportation cut of distillates has grown from 40% in 1978 to 60% in 1983, while the space-heating share has decreased from 42% to 29%.

Diesel fuel for light trucks and cars was expected to account for about 10% of the total on-highway diesel demand in 1983, compared to about 2% in 1979, the study indicates.

The home-heating marketing has been contracting too, like the gasoline market. A government study shows that the number of residential users of distillates declined from 16.9-million in 1979 to 11.3-million in 1982—a drop of 33%.

This has placed unusual "survivor" pressures on heating oil jobbers. Noteworthy is a National Oil Jobbers Council profile last spring that indicated more fuel oil jobbers vanished from the scene via mergers, acquisitions, retirements and liquidations than gasoline jobbers.

Another NOJC study, published only last month, shows that the average fuel oil jobber is distributing 3.2-million gal. of distillates to residential, commercial and industrial customers.

A note of optimism in the study: six out of 10 heating oil jobbers say they are still selling oil heat equipment and 70% of them report that their sales are increasing.

The fuel oil segment knows it has a tough job on its hands, and began a "fight back" campaign late last summer with a revival of its oil heat promotional conferences under NOJC auspices [NPN—Oct. '83, p44]. There seemed to be an increase in local oil heat promotional programs this winter.

Jobber Trends

According to NOJC's extensive marketer profile, in the two years of 1981 and 1982, acquisitions, mergers, financial liquidations and retirements of companies had reduced the jobber population from 18,139 to 11,369—an almost unbelievable decrease of one-third.

It was believed that this decline in population continued in 1983 but at a much slower rate, and that the shrinkage would go on in 1984, mostly governed by the cost of borrowed money for investment purposes and by the profitability of borderline jobberships.

Mike Scanlon, NOJC policy vice president, who directed the survey, said the need to attract higher volumes unquestionably was behind many of the mergers and acquisitions.

"Don't forget that most of the decrease came in the two years following decontrol of gasoline," he said.

"The jobbers who have survived are leaner and meaner and better able to do business much more efficiently. For many of them, they are operating on margins far below what they would have thought possible as recently as four to five years ago."

He expressed belief that "pretty soon, the post-decontrol shakeout would come to an end. Then, the new industry would be better situated and more capable of handling the changing market conditions."

Service Station Status

Government figures will not be available until late January or early February, but there seems to be no doubt that the service station population slump will continue in 1984 for the 12th consecutive year.

Some sources think the bloodletting in 1983 might have been more severe than had been anticipated at the beginning of the year, due primarily to the ruggedness of market conditions, tight margins and declining consumption.

As noted in the 1983 *NPN Factbook*, the service station population had been expected to be slightly under 140,000 by Dec. 31. These service stations are defined by the U.S. Census Bureau as stations which derive 50% or more of their income from the sale of gasoline and oil products. Not counted, therefore, are the thousands of convenience store and other non-traditional outlets.

With street competition for volume no easier in 1984 than it was in 1983, it is reasonable to project that the number of service stations will decline another 3.5% to 4% in 1984, which is what happened between 1983 and 1982. (The peak population year was 1972 when the U.S. Census Bureau count was 226,000.)

The *Lundberg Letter*, in one of its August issues, estimated the current service station "universe" at 210,875 units [NPN—Nov. '83, p30]. Industry sources consider this a reasonable figure inasmuch as it includes C-stores and all other outlets where motorists can buy gasoline.

Thus, the industry should wind down to a total population of a shade more than 200,000 outlets at the end of next year.

The U.S. Census Bureau took its quinquennial nose count in 1982, sending out tens of thousands of questionnaires to retail businesses all over the country. The first bushel-basket totals for the U.S. on an industry-wide basis are expected sometime this month. Meanwhile, the state-by-state reports, which really contain the details on gasoline and fuel oil marketing that the industry is most interested in, will be published in dribs and drabs throughout 1984.

It'll be this time next year before the picture is complete.

Equipment Outlook

Compounding the cash flow problem for many jobbers and retailers will be the increasing experimentation with electronic credit cards and systems. A lot depends on consumer acceptance of the systems at the pump and jobber tolerance at

the rack where he pulls product.

At the wholesale level, jobbers could find themselves in a bind should the major oil companies opt for electronic funds transfer (EFT) at the rack, eliminating "float" time associated with present supplier credit systems. The problem would be minimized for marketers if their retail customers quickly adapt to EFT systems at the pump.

[Next month, *NPN* will feature a special report on the proliferation of fund transfer systems.]

With shrinking margins, jobbers are welcoming the new equipment at the retail level. Systems being tested throughout 1983 could yield next year the proven systems needed for adequate cash flow.

Automatic Teller Machines (ATMs), EFTs, print-of-sale terminals and electronic pumps could become a fixture in some market areas by the end of 1984.

Next year also promises to bring increased state legislation on stage II vapor recovery, prompting nozzle manufacturers to step up research on compatible equipment. More and more marketers will be fitting pumps with such equipment in an attempt to get the jump on lawmakers.

Tank manufacturers could also be busy in 1984, as tanks installed decades ago continue to decay. Stronger construction for fiberglass tanks and more durable coatings for steel tanks are in store.

The big winner in the tank leak problem will be the companies marketing leak detection equipment. Equipment now available is designed to detect leaks long before they become serious. There are roughly 10 large manufacturers of the detectors today and many others are expected to come along.

The Washington Scene

If Congress and the White House can be persuaded to take time out from heavy election-year campaigning, 1984 holds both promise and uncertainty for oil marketing. There are enough important issues to keep lawmakers and regulators busy throughout the year.

At the top of the list of congressional issues is the fate of the package of legislative proposals pushed by marketing groups earlier this year to offset some of the problems stemming from price and allocation decontrol. After a lot of fanfare early in 1983, the package has been put on the back burner for the most part.

NOJC has endorsed the underlying concept of the package—a series of amendments to the Petroleum Marketing Practices Act (PMPA) and adjustments to other laws designed to give marketers more power to negotiate with large suppliers. [See story page 12.]

The package was presented as an alternative to divorcement/divestiture, but most congressional observers say it is unlikely that the proposals will get much attention in 1984, even though less radical than a divorcement approach.

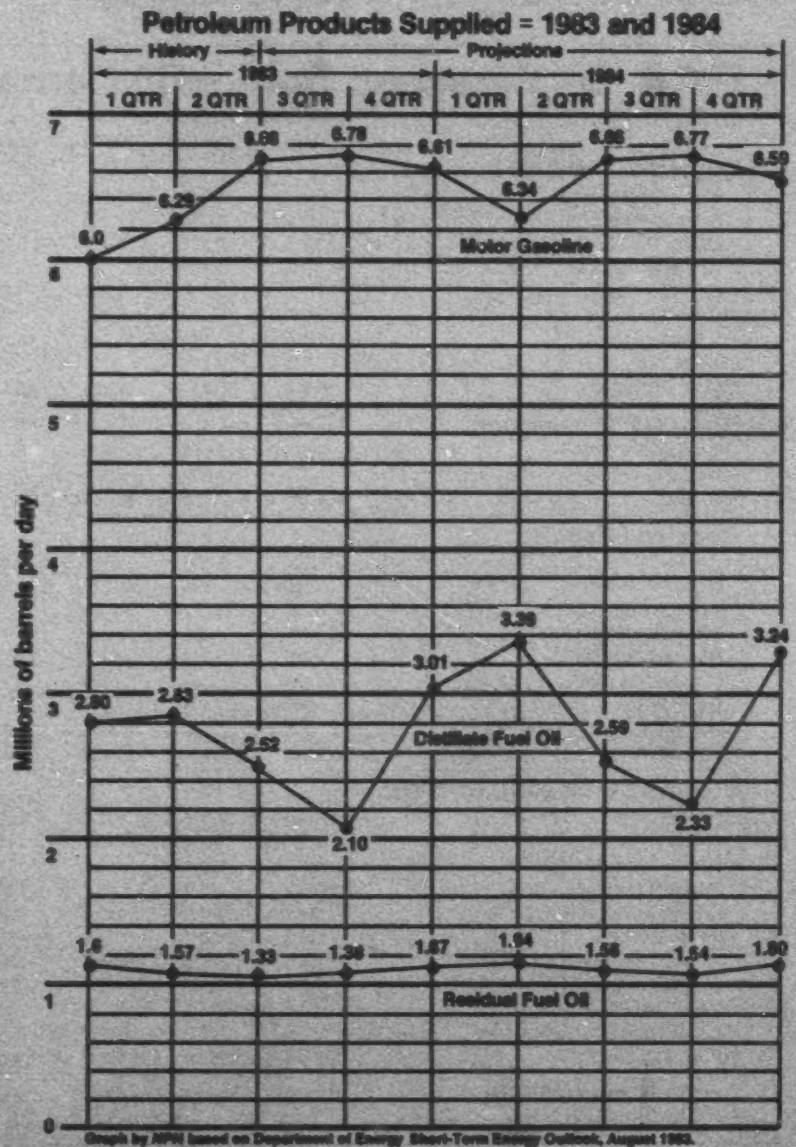
One subject Congress may take action on next year is the controversy surrounding credit card surcharges and cash discounts. NOJC and API worked most of the summer on a joint credit-cost proposal, and by early fall had pretty well agreed on the outlines for a proposal [NPN—Nov. '83, p15]. The NOJC-API plan would allow marketers to pass along the full cost of credit card processing to customers who use them.

The credit card proposal was still under wraps in early November, so the exact mechanism NOJC and API have devised for handling credit card costs is still something of a mystery. Both groups are moving slowly and cautiously, trying to line up support for the plan before it is widely publicized. Capitol Hill staffers say the fact that API and NOJC have already ironed out their differences will help. But if the credit surcharge proposal can clear Congress at all, it probably won't do so until late next year.

Three topics probably will generate the most noise on Capitol Hill in 1984.

Foremost is the ongoing controversy over the windfall profits taxes paid by the oil companies producing crude from Alaska's North Slope, particularly Atlantic Richfield. A preliminary General Accounting Office report said Uncle Sam has missed out on $500-million to $800-million in tax revenues because some Alaskan producers have underpaid the windfall tax—a charge Arco and others have forcefully denied. [See story page 12.]

In October, the Internal Revenue Service clarified its windfall tax rules for North Slope oil, but it's unlikely the IRS clarifi-



cation will satisfy Congress, especially with the prospect of $800-million in tax revenues at stake and huge federal deficits looming.

Basically, however, the ruling held that Arco has underpaid its Alaskan taxes, a point many marketers have been contending for months. They said Arco has been able to undercut markets as a result.

Congress also is likely to spend some time next year deciding what to do with the millions of dollars the government has collected and will collect as a result of the cases brought by the Energy Department under the old price and allocation controls. Recent court decisions have opened the way for at least some of the settlement money to find its way into the hands of jobbers and retail dealers, but state and local governments—who have considerable lobbying power and want a much bigger slice of the refund pie—no doubt will take their case to Congress.

Another safe bet: There will be renewed talk about the proper course for the government to take regarding a future shortage of crude oil supplies. A recent international energy group study suggesting the Reagan administration's hands-off policy would result in soaring oil prices and severe allocation problems has rekindled debate in Congress on the subject [NPN—Nov. '83, p37]. In late October, a Senate energy committee held hearings on a bill endorsing the administration's free market approach, but the measure drew fire from several marketer groups and appeared headed for trouble. A Senate vote is likely early in 1984, but House sources say the bill probably will be ignored there.

Other legislative items that bear watching are mainly tax issues. In addition to several proposals to modify last April's hike in the gasoline excise tax, Congress will be looking at the income tax structure with an eye to increasing revenues. The huge federal deficits will attract vocal, partisan politicking in the presidential election campaign. And, should Congress be forced to stay in session past the November election (a reasonable prospect), tax legislation may be high on a lame duck session's agenda.

On the regulatory side, forecasters say 1984 will be a quiet year. The one notable exception: the Environmental Protection Agency, which still is contending with several issues of concern to marketers, including stage II vapor recovery, benzene regulations and hazardous waste issues.

In late October, Congress was on the verge of passing legislation that will force EPA to apply its hazardous waste rules to so-called "small generators," those which create 100 kilograms (about 22 lbs.) of waste material per year [NPN—Aug. '83, p33]. Items on the hazardous waste list now include many of the sol-

IPAA '84 Forecast: Domestic Demand to Rise 2.2%

(000 b/d except closing stocks)

	1st Q	2nd Q	3rd Q	4th Q	Est '84	Est. '83	% Chng.
Domestic Product Demand							
Motor Gasoline	6,284	6,711	6,730	6,522	6,563	6,579	(0.2%)
Aviation Fuels	1,060	1,078	1,106	1,080	1,081	1,061	1.8%
Middle Distillates	3,313	2,201	2,537	3,068	2,903	2,780	4.4
Residual Fuel Oil	1,696	1,413	1,408	1,611	1,531	1,460	4.9
Liquified Gases	1,712	1,281	1,320	1,619	1,482	1,425	4.0
Other Products	1,640	1,946	2,155	1,894	1,911	1,830	4.4
Total	15,705	15,130	15,256	15,794	15,471	15,135	2.2
Exports	753	721	719	735	731	786	(7.0)
TOTAL DEMAND	16,458	15,851	15,925	16,529	16,202	15,921	1.8
Domestic Production							
Crude Oil	8,638	8,658	8,640	8,624	8,640	8,672	—
Nat'l Gas Liquids	1,573	1,506	1,510	1,558	1,537	1,541	—
Total	10,211	10,164	10,150	10,182	10,177	10,213	—
Required Imports							
Crude Oil	3,277	3,588	3,912	3,898	3,670	3,206	14.5
Motor Gasoline	180	223	216	194	203	236	(14.0)
Aviation Fuels	26	27	31	31	29	28	3.6
Middle Distillates	146	136	172	189	161	156	3.2
Residual Fuel Oil	833	716	711	815	769	726	5.9
Liquified Gases	244	181	189	251	216	205	5.14
Other Products	246	313	288	279	281	297	(5.4)
Other Supply	718	566	695	636	655	709	(7.6)
TOTAL SUPPLY	15,981	15,914	16,364	16,475	16,161	15,776	2.4
Closing Stock (000,000 bbl.)							
Motor Gasoline	230.6	222.6	222.7	227.6	227.6	231.2	(1.6)
Aviation Fuels	44.7	44.6	45.2	45.0	45.0	43.4	3.7
Middle Distillates	120.0	124.8	158.8	163.3	163.3	168.6	(3.1)
Residual Fuel Oil	44.2	49.2	46.2	46.7	46.7	50.6	(7.7)
Liquified Gases	89.2	104.6	115.4	102.7	102.7	107.6	(4.6)
Other Products	55.8	56.1	47.8	50.3	50.3	48.6	3.5
Total Products	584.5	601.9	636.1	635.6	635.6	650.0	(2.2)
Unfinished Oils	112.0	104.3	111.2	106.6	106.6	107.9	(1.2)
Nat'l Gas Liquids	14.6	14.7	14.6	14.5	14.5	13.9	4.3
Crude Oil	352.5	348.5	343.3	343.6	343.6	343.7	—
TOTAL ALL OILS	1,063.6	1,069.4	1,105.2	1,100.3	1,100.3	1,115.5	(1.4)
Crude Runs to Stills	11,739	12,046	12,466	12,312	12,142	11,808	2.5

Source: Independent Petroleum Assn. of America, Supply and Demand Committee, November 1983

vents, paints and gasoline additives routinely handled by marketers. Some time next year, EPA also will have to decide whether to include waste motor oil in its definition of hazardous waste.

TBA Outlook

Pinning their hopes mostly on a continuing upswing in the nation's economy, TBA experts are anticipating better times in 1984—not the old-fashioned, bell-ringing type, but materially better than the year now coming to a close.

"I personally am on the optimistic side," says Robert L. Myrick, TBA manager for Shell and newly elected chairman of the International Oil Industry TBA Group. [NPN—Nov. '83, p12].

"As the economy brightens up, so should we in TBA. It should be a good year for our aftermarket activities. And, one thing to remember is that as the service station popul[illegible] continues to go down, the ones that remain can't help but do better. There'll just be fewer of them to handle more business."

The same is true for oil jobbers. Some have gotten out, but the others are doing better than ever, according to an extensive review by *NPN* in October of this year [NPN—Oct. '83, p36].

Another study indicates that some jobbers are doing better than $500,000 a year in TBA, while almost two out of 10 are doing about $200,000 a year. On the assumption that the economy continues to improve, the TBA people said these totals also would rise in 1984.

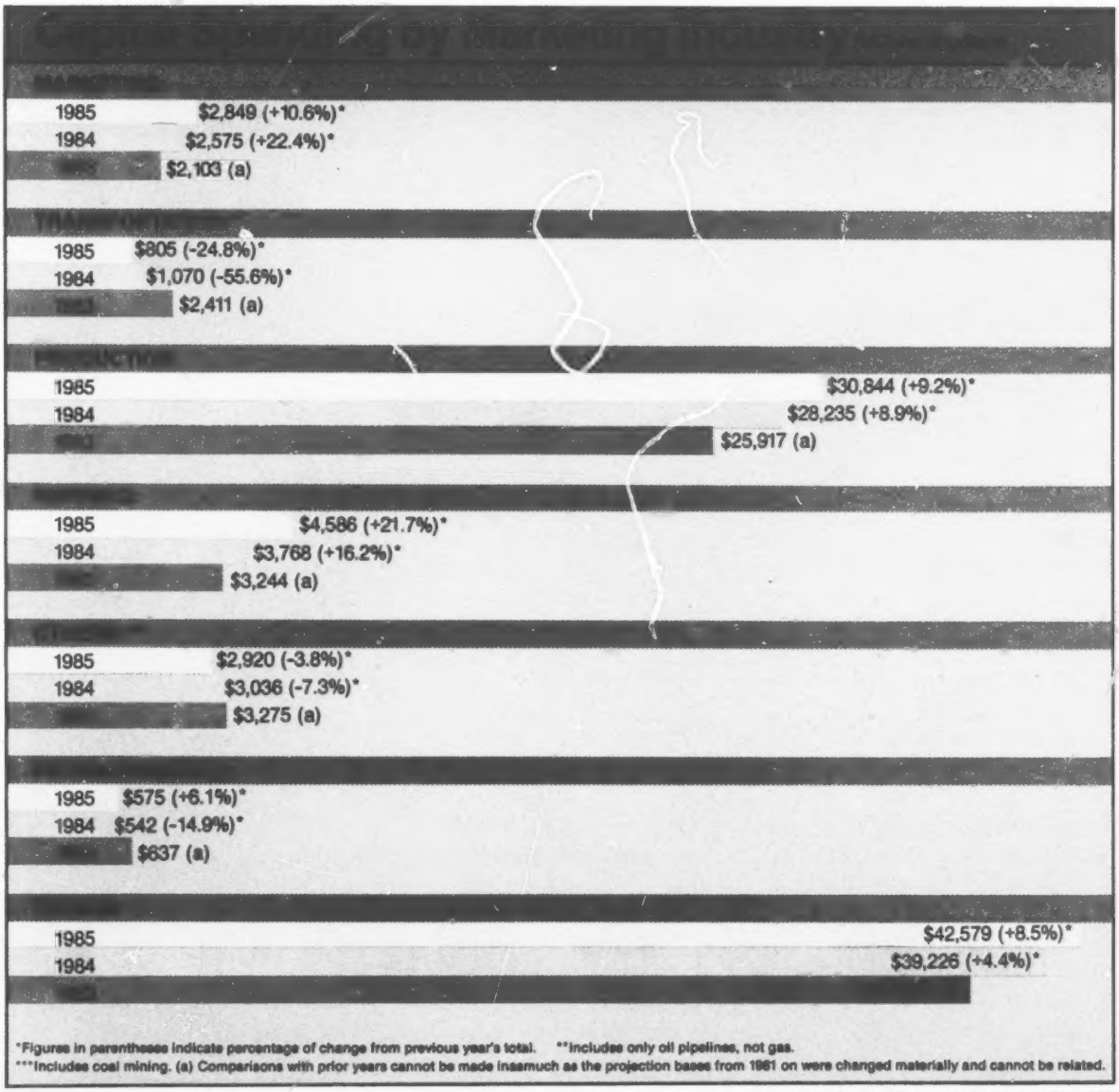
At the TBA Group meeting in Boston in early October, one panel of experts generally agreed that while the outlook for 1984 isn't all sunshine and roses, it really isn't negative either.

Special note was made that as the electronic sophistication of car engines increases, so will the pressures on do-it-yourselfers particularly to return their vehicles to professionals in service station repair shops and elsewhere for their maintenance.

A battery specialist also pointed out that the increasing electronic involvement and requirement for more power will hasten the day when every new car will need two batteries—one for start-up and the other for reserve use. This can be as close as three years from now, he said.

There also were suggestions that service stations must rebuild their images as complete and competitively priced sources of aftermarket equipment and supplies. "The retail industry just has to be more aggressive, especially on the driveway," said one equipment man.

Aggressive. That's a notion that ought to stick in the mind of a marketer of TBA, gasoline or fuel oil in the year to come. In light of anticipated market conditions, he will need to be all of that. **NPN**



*Figures in parentheses indicate percentage of change from previous year's total. **Includes only oil pipelines, not gas.
***Includes coal mining. (a) Comparisons with prior years cannot be made inasmuch as the projection bases from 1981 on were changed materially and cannot be related.

Source: McGraw-Hill Economics Department, Nov. 1983

Marketer Count Drops a Little Bit, But Overall Employment Inches Up

Total employment in wholesale and retail oil marketing declined in 1982, as might be expected. But, strange as it may seem, more than half of the states actually registered increases in one or both segments.

The statistics were compiled by the Independent Petroleum Assn. of America from government business reports, and were published in its annual issue of "The Oil Producing Industry in Your State." The employment table is only one of the many in the publication.

Total employment in wholesale marketing slipped 1% in 1982, from 227,586 the year before to 225,394. Similarly, employment in retail marketing fell 1.1% from 564,788 in 1981 to 558,462 in 1982, according to IPAA data.

Total employment in the entire petroleum industry—exploration, production, transportation, refining and marketing—increased a mere 0.9% in 1982. Nevertheless, it denotes a plus sign at a time when the industry generally had been in overall retrenchment.

The marketing decreases are not the least bit surprising in view of the sloppy marketplaces in 1982, intensive competitive pressures, business failures, mergers and buyouts.

What might be considered a bit unusual is the fact that the declines in both segments of marketing were actually so moderate. The National Oil Jobbers Council reported earlier this year that the jobber population had declined 10% to 15% in 1982, and government data confirmed that the service station population had dropped by 6,500 outlets during the same year [NPN—Sept. '83, p12].

In 1982, five states registered increases in employment in both the wholesale and retail segments. They were Alaska, Hawaii, Missouri, New Jersey and Pennsylvania. [See table.]

In addition, 12 others experienced employment growth in wholesale marketing, and 10 more states, plus the District of Columbia, showed increases in retail operations.

Those with wholesale increases—besides the dual states—were Alabama, Arkansas, Connecticut, Delaware, Illinois, Indiana, Kentucky, Louisiana, Mississippi, Nevada, Washington and West Virginia.

Those with retail increases were Georgia, Idaho, Iowa, Kansas, Maine, Massachusetts, Michigan, New York, Rhode Island, Vermont and Washington, D.C.

—J. Richard Shaner

	Wholesale Petroleum & Petroleum Prods.		Retail Gasoline Service Stations		Total Industry(*) All Segments	
	1982	1981	1982	1981	1982	1981
Ala.	4,396	4,349	7,257	7,428	17,211	17,059
Alaska	397	307	1,122	835	10,986	8,467
Ariz.	1,478	1,576	7,195	7,330	10,082	10,231
Ark.	2,597	2,387	4,300	4,557	14,710	14,408
Calif.	15,792	16,459	59,447	61,405	156,252	153,658
Colo.	3,253	3,327	8,970	9,389	44,875	40,957
Conn.	2,910	2,670	8,920	8,940	13,830	13,280
Del.	509	499	1,427	1,491	3,409	3,430
Fla.	7,086	7,399	28,271	26,897	39,075	37,520
Ga.	6,091	6,393	14,764	14,260	25,242	25,120
Hawaii	476	469	3,402	3,307	4,645	4,600
Idaho	1,542	1,643	2,076	1,984	4,317	4,456
Ill.	12,000	10,500	23,000	27,200	60,950	63,450
Ind.	4,301	4,282	14,584	15,625	28,181	28,181
Iowa	2,951	3,621	11,139	10,759	15,522	15,848
Kan.	2,667	2,681	7,364	6,922	38,070	38,915
Ky.	3,114	3,081	9,096	9,379	22,573	22,738
La.	6,700	6,588	8,600	9,438	131,200	134,770
Maine	1,246	1,300	2,461	2,300	3,727	3,600
Md.	3,346	3,532	12,540	12,960	16,119	18,207
Mass.	3,700	3,712	13,960	13,614	25,235	22,713
Mich.	5,200	6,496	20,400	20,170	41,100	42,605
Minn.	2,827	2,877	14,552	15,067	21,366	22,229
Miss.	3,383	3,171	4,624	4,783	23,026	23,532
Mo.	7,368	7,100	13,976	13,270	29,170	26,200
Mont.	1,776	1,760	2,291	2,596	10,823	12,495
Neb.	1,717	1,774	6,008	6,125	12,849	13,034
Nev.	554	552	3,342	3,599	5,095	5,506
N.H.	552	666	2,411	2,464	3,284	3,453
N.J.	4,755	4,715	18,659	18,258	35,672	35,506
N.M.	1,863	1,846	4,003	4,149	26,520	27,296
N.Y.	13,755	14,096	28,645	27,830	63,513	62,757
N.C.	6,979	7,166	9,659	10,243	19,434	20,192
N.D.	2,438	2,349	2,164	2,210	13,153	14,255
Ohio	6,436	6,550	28,622	25,044	62,670	63,661
Okla.	7,617	7,900	6,608	5,200	133,254	121,990
Ore.	2,178	2,401	7,395	7,880	11,162	11,939
Pa.	11,300	11,040	27,400	28,079	68,400	68,781
R.I.	601	668	2,262	2,097	3,854	3,707
S.C.	3,528	3,743	6,449	6,543	10,601	10,867
S.D.	1,468	1,480	2,620	2,647	4,451	4,369
Tenn.	4,403	4,498	11,688	12,251	19,250	20,038
Texas	26,629	26,724	35,933	36,279	433,170	421,622
Utah	1,970	2,057	4,129	4,319	15,441	16,108
Vt.	320	351	1,685	1,676	2,137	2,169
Va.	7,600	7,700	13,900	14,100	24,700	24,900
Wash.	3,146	2,99[illegible]	9,188	9,397	15,820	15,778
W. Va.	2,062	2,05[illegible]	3,853	4,170	18,272	14,905
Wisc.	4,928	4,547	12,032	14,324	20,349	22,172
Wyo.	1,152	1,162	2,990	2,991	28,245	29,303
Dist. of Col.	329	369	1,078	1,047	2,313	2,326
Total U.S.	225,394	227,586	558,462	564,788	1,865,305	1,849,198

(*)Total includes marketing, refining, exploration, production and refining.
Source: Independent Petroleum Assn. of America, "The Oil Industry in Your State," 1983 and 1982 editions.